

AMERICANS FOR PROSPERITY

1726 M Street NW, 10th Floor • Washington, DC 20036 • 202-349-5880

January 25, 2008

Dear Representative:

On behalf of the more than 200,000 members of Americans for Prosperity, I am writing to express our strong support for HR 5109, the Economic Growth Act of 2008. This bill embodies some of the best ideas to limit the serious downside risk to the U.S. economy, unlike the big-government alternatives of simply borrowing more money to fund higher government spending or one-time rebates, which would risk accelerating inflation without altering the incentives for capital formation and business investment.

The bill's expensing provisions would give the economy a robust supply-side shot in the arm. As Ernie Christian from the Center for Strategic Tax Reform has noted, this tax cut has revived the economy six times since the 1960s, and has been a favored bipartisan measure in the past. Partial expensing helped end the last recession, and should again be part of the solution. By encouraging businesses to accelerate investment, expensing increases productivity, raising economic growth and real wages. Expensing also pays for itself within the budget window because it simply accelerates depreciation deductions that would be taken in the future.

We also strongly support the Economic Growth Act's supply-side tax rate reductions. Capital gains tax cuts are a proven and effective way to stimulate economic growth. By raising the after-tax return on investment, they automatically increase the value of business assets, which would restore financial markets, encourage capital formation, and lower the cost of capital. This is a much better way to increase liquidity and credit market flowing again than higher government spending because it affects investment and therefore will drive real productivity growth, moderating inflationary pressures.

Inflation was above four percent last year, and could accelerate with lower interest rates from the Fed and the prospects of increased federal spending. That makes the Economic Growth Act's indexing provisions especially valuable. The current capital gains tax ignores inflation, making it largely a tax on imaginary gains. Some assets that actually decline in value in real terms are assessed as capital gains tax because inflation wrongly implies there has been an investment gain, resulting in a tax that unfairly confiscates principal.

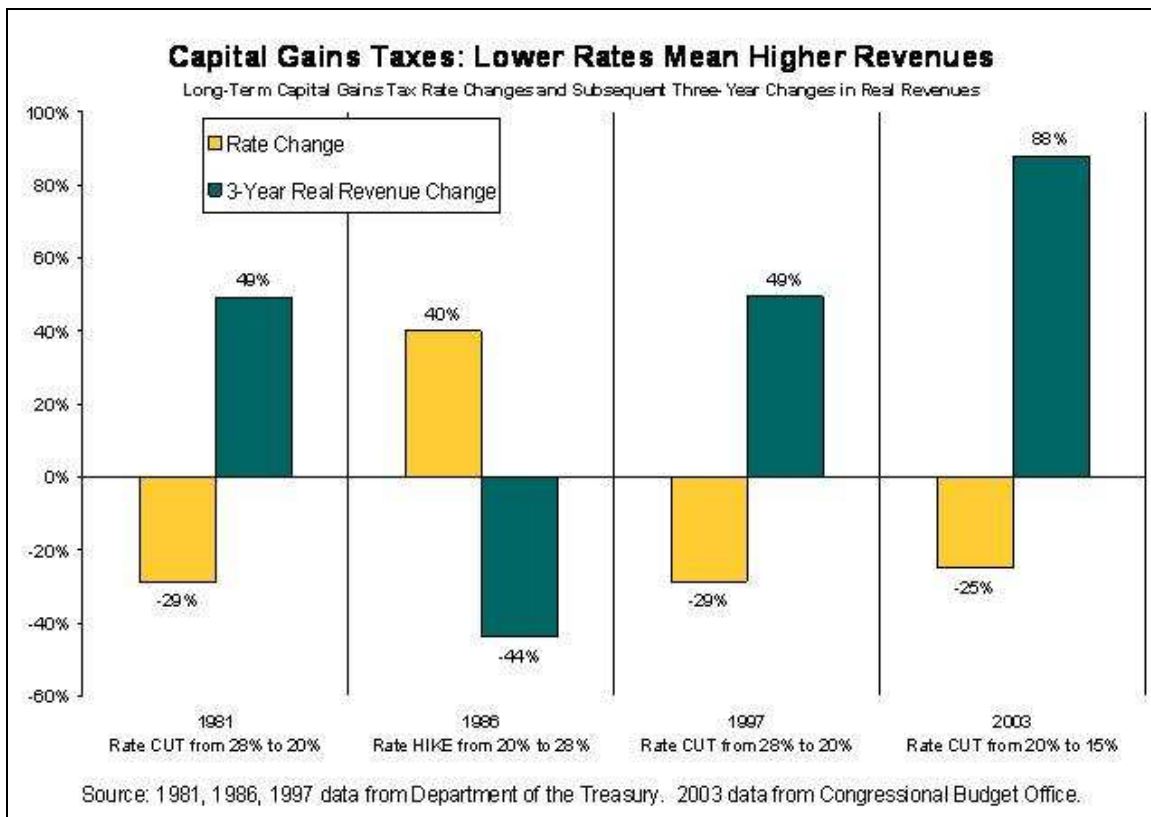
We agree with former Federal Reserve Board governor Wayne Angell, who said in 1993: "If we are to reduce the damaging effects that we know are caused by all capital taxation, it makes sense to eliminate the worst aspect of the most damaging tax on capital--the tax on phantom gains."

We also support reducing the corporate tax rate, one of the highest in the world, and specifically commend the bill's reduction in the corporate capital gains rate. Corporations currently pay the full 35% rate on capital gains. Corporate capital gains are not just double taxed but triple taxed—sitting between the corporate tax of the company whose stock was sold and the shareholders who are themselves taxed. Hong Kong, Singapore and New Zealand don't tax corporate capital gains at all. France and Germany, traditional

bastions of big government, exclude 95% of corporate capital gains from taxation. Canada has a 50% exclusion. Japan and Britain have exemptions for capital gains that are reinvested.

Consistent experience with the individual capital gains tax gives reason to expect that cutting the corporate capital gains tax would stimulate the economy dramatically because it would encourage the realization of capital gains “locked up” by current tax rates, driving economic growth by allowing capital to be put to more productive use.

As the chart below shows, capital gains rate cuts have historically correlated with higher federal revenues, while rate hikes have correlated with lower revenues, suggesting that the capital gains indexing and corporate capital gains provisions could get the economy moving without increasing the federal deficit.



For these reasons, we strongly support HR 5109, the Economic Growth Act of 2008 and encourage all Members of Congress to co-sponsor it. Furthermore, we will continue to support supply-side stimulus measures that encourage and accelerate and encourage investment.

Sincerely,

Tim Philips
President
Americans for Prosperity